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Hearings Give Clues as to How Sen. Long Aims to Get Tax Measure Carter Can Sign

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WASHINGTON—One of Russell Long's strengths as a legislative operator is that he doesn't want much for himself.

Take the tax bill of 1978, for example.

A week of hearings by the Senate Finance Committee and sometimes Delphic utterances by Chairman Long suggest that the Louisiana Democrat would be happy if all he got from the next six weeks of work on the tax bill was (1) Something President Carter could sign and (2) Additional tax breaks for companies that set up Employe Stock Ownership Plans, or ESOPs.

Getting the second should be easy, if Sen. Long can only figure out a way to get the first. His ESOP bill would cost the Treasury $1.8 billion next year, hardly a sum the rest of Congress and Mr. Carter could begrudge someone who saved them from a tax-bill veto in an election year.

Mr. Carter says he will veto the bill, unless the Senate and House-Senate conferees "correct some of the basic errors" in the House-passed version. That means, the President says, producing a bill that would make the tax code fairer, simpler and more friendly to capital formation than the House bill.

Precisely how Sen. Long will try to translate those splendid principles into legislative language remains unclear. But the Finance Committee hearings have produced some hints.

Miller to Testify

The hearings are due to end Sept. 6 with testimony from Federal Reserve Board Chairman G. William Miller. The committee plans to start drafting its version of the tax bill Sept. 7.

In Mr. Carter's eyes, the basic error the House committed was to give too much of its $16.3 billion tax cut to rich folk and too little to everyone else. What the President regards as a maldistribution of benefits occurs because of the House's hefty cut in capital-gains taxes and because the House voted against trying to make the tax code more "progressive" and decided, for the first time in years, to make everyone's share of the tax cut roughly equal to his current share of the tax burden.

Whatever Mr. Carter's views, the winds on Capitol Hill are blowing strongly toward a big cut in capital-gains taxes and against more tax progressivity. Thus, even if he wanted to, Sen. Long probably couldn't switch benefits from the upper end of the income scale to the lower end.

The best he can do for his President is to pile on more benefits at the lower end. And that's going to cost more money.

Take capital gains, which are gains from the sale of corporate stock, real estate and other capital assets. The House voted to cut the top tax rate on capital gains to 35% from 49% by removing them from the list of preferences under both the 15% minimum tax and the 50% maximum tax on earned income.

It also voted to "index" gains for inflation, starting in 1980, by permitting owners of capital assets to increase their cost basis in line with consumer prices. The House bill also would allow homeowners to avoid tax, once in a lifetime, on up to $100,000 of profit from a home sale.

In place of the old 15% minimum tax on gains, the House agreed to establish a new 10% alternative minimum tax, which would have to be paid only to the extent it exceeded regular tax liability. The House bill also would repeal the option of having the first $50,000 of capital gains taxed at no more than 25%.

These changes would produce a net tax cut of $1.9 billion next year and $6.8 billion a year by 1983, after indexing started to have an effect.

The homeowners' exclusion was added after President Carter denounced the capital-gains provisions for providing "huge tax windfalls for millionaires and two bits for the average American." Some 96% of the benefits from changing the minimum, maximum and alternative taxes would go to those earning more than $50,000 a year.

More than 71% of the benefits of indexing would go to taxpayers making more than $50,000. The homeowners' tax break is the only part of the capital-gains package that could be described as providing most of its benefits directly to "average" Americans; 70% of it would go to those in the $20,000-to-$50,000 income class.

Chairman Long finds himself caught between Mr. Carter, who wants the capital-gains relief scaled down and the alternative minimum tax toughened, and 60 Senators sponsoring the "Steiger" plan, named for Rep. William Steiger (R., Wis.), which would cut the top rate on capital gains even further than the House bill, to 25%.

To placate his Senate colleagues, Sen. Long appears to be leaning toward a capital-gains package that would include the House provision eliminating gains as a preference item under both the minimum and maximum taxes, plus something President Kennedy proposed in 1963—an increase in the capital-gains exclusion to 70% from 50%.

To soothe the President, Sen. Long seems also to be thinking about a much tougher alternative minimum tax than the House passed, deleting indexing, and maybe even reducing the House-passed homeowners' tax break.

Removing gains as a preference item and raising the exclusion to 70% would cut the top rate on capital gains to 21%, even further than the Steiger plan. Unlike the Steiger plan, however, raising the exclusion would also benefit asset holders in all tax brackets. It would, for example, help compensate homeowners for a less-generous homeowners' exclusion.

A tougher alternative minimum tax would reduce the number of high-income persons who use other deductions to shelter large capital gains from tax, and could raise some revenue to help pay for Sen. Long's capital-gains package.

Eliminating inflation indexing would save the Treasury lots of money in the long run and might be the single most important step toward avoiding a presidential veto.

A capital-gains package like this would cost the Treasury about $3 billion next year, half again as much as the House-passed provisions. But neither estimate assumes any revenue "feedback" from increased sales of capital assets or increased capital investment.

After toying with the concept for years, Sen. Long has lately come to develop an almost irresistible taste for feedback. So it wouldn't surprise anyone to find the Finance Committee approving a big cut in capital-gains rates with a small price tag.

Another way Chairman Long likes to reduce the size of tax-cut bills is to delay effective dates, a device that helps him avoid running afoul of the letter, if not the spirit, of congressional budget procedures. As a further revenue offset in the area of capital gains, he has even hinted that he might try taxing capital gains unrealized at the death of the asset holder, a long-sought goal of liberal tax "reformers."

A big cut in rates would take some of the sting out of taxing gains at death.

As for the other "error"—President Carter says the House committed too much for the rich, too little for everyone else—Sen. Long seems determined to correct this mainly by piling on more benefits at the lower end of the income scale. This could be done in a variety of ways, by increasing the earned income credit for the working poor, for example.

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In addition, the Finance Committee already has approved a more generous credit for the elderly, and all of the benefit, about $300 billion, would go to those earning less than $20,000 a year. Provisions like this will certainly almost be added to the big tax bill to fatten the tax breaks for low and middle-income people.

Sen. Long would like to provide a large enough cut in income taxes to offset the increase that's due to occur next year, as Social Security taxes rise and as inflation pushes individuals into higher income-tax brackets. Social Security and inflation will add an estimated $11 billion to $12 billion to the individual tax burden between 1978 and 1979. The House bill would offset only $10.4 billion of that.

"I hope we can change the bill to make it a tax cut for everybody," Sen. Long said at the hearings. Instead of the House bill's $16.3 billion cut, he said, he's thinking more in terms of a reduction of $20 billion.

Chairman Long isn't the only member of the Finance Committee, or of the Senate, with ideas about how to distribute that money. Along the way to trying to produce a bill President Carter can sign, Sen. Long will have to deal with strong demands for, among other things: a cut in the top corporate rate deeper than the House-passed reduction to 46% from 48%; an exemption from the top corporate rate higher than the House's $100,000, which is twice the existing figure; retention of the general jobs tax credit, instead of the targeted credit the House approved; a still more generous investment-tax credit than the House voted, and a separate charitable deduction for taxpayers who use the standard deduction.